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ABSTRACT

In a poor state such as Arkansas, progress is often a slow and painful process. Particularly in the area of teacher salaries, school funding plans are often thwarted by budget shortfalls. Court decisions and efforts to stabilize and equalize school funding and local property taxes have led to political battles over taxation. Constitutional Amendment 59 attempted to prevent large tax increases and created three property tax categories: real property, personal property, and carrier and utility. Under the amendment, school income could increase only if real property millage rose as well. When the state's education funding system was declared unconstitutional in 1983, a 1 percent sales tax was levied to supplement education. Next, Act 34 created a new education finance system, but it did not create equitable educational financing. And although Act 34 set new standards for teacher salaries, they did not rise significantly. Gains in teacher salaries were made through a one-half cent increase in the sales tax approved in 1991. These gains were lessened in 1992 by Amendment 71, which removed household goods from personal property taxes. The state legislature is attempting to solve the problems of inadequate and unstable school funding but faces significant political obstacles. (JPT)

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ARKANSAS: THE STATE OF THE STATE

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ARKANSAS: THE STATE OF THE STATE

It would seem that in a poor state, progress is made by taking two steps forward and one step back. It makes advancement a slow and sometimes painful process.

Added to this there is the sub-rosa connection between legislators in poor states and members of the Cargo Cult of the South Pacific. These latter individuals look with confidence toward the future and the arrival of ships and planes loaded with cargo to make them all rich. By some strange cultural connection, the poverty level legislators believe that some large tax payers will arise and cover their fiscal shortfalls. The chances of success of both groups are identical. Thus when ambitious plans for school finance are made by legislatures in poor states, they do not work out precisely as intended. Such has been the recent history of Arkansas, especially where teacher salaries are concerned.

In recent years there have been several such attempts all of which haunt the matter of salary payments.

Arkansas has regularly flirted with last place over the years. It has usually been saved from that distinction by another state. However, fiftieth has been a common location. In the seventies it was an acknowledged fact that local property assessment was a crazy quilt. When a suit, unrelated to schools, reached the State Supreme Court all real estate was ordered reassessed over a five year period.

This put the politicians into a frenzy. They could see assessments and hence taxes tripling. It also created an opportunity for special interests to see their taxes as lowered or at least not affected. As a result, the legislature

produced Constitutional Amendment 59, sold to the voters as the way to prevent a big tax hike.

Amendment 59 created three kinds of property and treated each differently. Real Property was to be reassessed. Then millage was to be rolled back to a point where no taxing authority received more than a ten percent increase. When some of the first school districts to have their property reassessed did not receive a ten percent bonus, they brought suit only to be told that there was no guarantee of any increase but if one occurred it would be limited to ten percent. Thus although real property assessment increased greatly, there was no immediate benefit to the schools.

There was, on the other hand, an immediate loss to schools. The reassessment had to be paid for. The Arkansas system is to divide the cost in proportion to the taxes received. since schools receive the largest amount from the property tax they had to pay the largest share of the reassessment bill. To be sure the legislature did appropriate some funds to pay for it all but schools were still caught by the shortfall.

Personal Property was the second classification. The yield from such taxation was frozen until such a time that personal property so increased in total assessment that the new real property millage would yield the same or greater amount than the old millage rate. What this has meant is a growth of property which has yielded no tax. The pre-reassessment average millage for the state was 54.75. Currently it is 28.66. Consequently, the tax yield from 26 mills has been lost. The major beneficiaries of the largesse have been the holders of large inventories. The householder may have seen his personal property tax not increase but instead his real property tax has had to rise.

The third type of property created by Amendment 59 was Carrier and Utility. This had yet another treatment. Tax yield was frozen for 5 years. At

that point in time the yield from the new real property millage was calculated and the difference determined. Tax rates were then lowered at 20 percent of the difference for five years. Thus school districts received a second real loss in income.

What this has all meant is that local school income could only be increased by a rise in real property millage. Carrier and Utility Property has been reduced. Personal Property has remained constant. The loss of potential revenue from this source amounted to 106.2 million dollars in 1989.

As a result of Amendment 59, the state had to put up a large portion of the education bill when its school finance system was declared unconstitutional in 1983 and a cent of sales tax was passed and so devoted.

Act 34

A new finance system for schools had to be designed in 1983. Act 34 of 1983 was the prescribed answer. Actually, as recent research has revealed the degree of financial equity between school districts has not increased since 1983 and has in fact worsened. The basic reason for the lack of equity is the fact that local wealth is poorly calculated. This has two causes. First a dirty crystal ball at the time the act was written and second political muscle.

The cloudy crystal was due to the fact that reassessment was in full swing during the legislative session which passed Act 34. Some counties had been completed. Others not even started. Therefore, the methodology of calculating wealth, especially as personal property and carrier and utility property. As a result, a figure of 45 mills was pulled out of the air and applied to both of these types of property. The assessment to be used was that of the year prior to the reassessment of the district. This amount calculated as the yield in this fashion was much less than the real frozen yield for most districts.

If the actual income from these tax sources changes, then the percentage of gain or loss is calculated. the percentage difference is then applied to the pre reassessment assessment. A 45 mill charge is then made on the new number. To point out that this kind of calculation results in only a vague imitation of reality is belaboring the obvious. It is an anachronism. Reassessment was completed long ago. The majority of schools have equalized the three kinds of property. Yet, annually we are presented with making believe that it was still going on. The old crystal ball did not reveal that the temporary process would become permanent.

The political error was a compromise on the evaluation of real property in the school district for the purpose of calculating local wealth. The original proposal was for the value to be calculated at 16 mills. This offended some of those desirous of equity and it was raised to 19. It was recognized that the tax was too low. Finally in 1989, the figure was allowed to rise to a cap of 25. The rise was tied into added state appropriation for the foundation program. These increases have been permitted the charge to become 23.9. But of the state average school millage is 28.66, the figure is still too low. It means that the average school district has an excess amount of money over and above the equalization rate. The wealthy districts or high millage districts can greatly exceed the equalization level and inequity results. Even if the rate runs to the average millage as has been proposed in the legislature, half of the states districts will still have some money beyond the average and inequity will not be cured.

Inequity results from pressure from below as well. Districts with a millage rate three mills or more below the charge are deprived of the weights for vocational and gifted and talented education. This means that districts which are not actually receiving the funds which they are calculated to have are

also deprived of some state aid. Hence they fall into a low expenditure category further stretching the spectrum of dollars spent per pupil.

However the major difficulty with Act 34 was a section which originally seemed quite innocuous. This was a set of requirements for professional salary placed in the law at the behest of the teacher organization.

The requirements are that 56 percent of new money and 70 percent of the net total budget of each school district must be devoted to professional salaries. This did not seem too frightening. At least not until some of the cuts in local taxes and even state aid during the late 1980's took their toll. When the money was replaced it became new money and had to go to salary. As a result, of this shifting in 1992-93 some 118 school districts out of 329 are spending more than 80 percent of their budget on teacher salaries. These districts were surveyed as to what areas where being cut. The largest cuts have been in instructional supplies and building maintenance. Both of these will come to haunt the affected schools.

In addition the requirement mitigates against the weights in the law for special education and vocational classes. Unless 70 percent of the weight income is devoted to professional salaries, the actual cost of the program must be made up elsewhere while teachers get raises. Equipment and aides need to be paid for as well but cannot be if the money must go to salary. This situation provides a second set of pressures.

However even with this large scale commitment to teacher salaries, they did not rise by much. The reason the step backward, was that the new state standards also adopted in 1983, limited class size. Hence some 5000 teachers were hired in the state between 1983 and 1990. These were the recipients of the bulk of the money drawn from the required percentages.

The Trust Fund

Since the bulk of teachers had not received much of an increase for eight years, the 1991 session of the legislature enacted Act 10, the Educational Excellence Trust Fund. This fund was created by a half cent increase in the state sales tax. The money was earmarked for teacher salaries. It specifically provided for no increase for superintendents and assistant superintendents. Therefore teachers received a sizable increase in the 1991-92 school year with added dollars expected in the second year of the biennium.

But the national recession caught up with Arkansas. Tax collections fell. The second year raises materialized in only some school districts which had excess in local funds. In addition raises were doomed from another source, Proposed Amendment 2, now Amendment 71 to the Arkansas Constitution.

Amendment 71

This amendment started out as SJR-8 and was placed on the November 1992 ballot by action of the legislature. It passed by a resounding majority. It did one very simple thing. It removed all household goods from the personal property tax rolls. It was recognized that this would create a tax shortfall for schools and other taxing authorities. Therefore, a second section was added. This provided for the legislature to enact legislation which would permit more rapid collection of personal property taxes on automobiles. The idea is that the tax would be paid at the time auto tags were purchased unlike the present system where the tax is not due until months later. The delay permits people to buy tags and move out of the state before taxes are due. The only trouble with this combination of tax reform is that it is estimated that schools will lose 20 million dollars with the removal of personal property and a generous estimate is that they will recoup 7 million from the auto tax if it is

passed.. Thus a net loss of 13 million and a step back from the Excellence Trust Fund.

At present the legislation to accomplish this is bogged down in committee and there is a definite chance that it will not become law.

There is an odd quirk to the whole situation. School districts which have not equalized the real and personal property will suffer no loss. This is due to a state supreme court decision in 1991. It seems that in one unequalized district personal property assessments fell. Therefore the tax assessor raised the millage to keep the yield constant. This action was challenged in court. The courts agreed with the assessor. The decision pointed out that Amendment 59 had frozen the yield of this tax. Although it was believed that this would only lower millage it could also raise it. Therefore when household goods are subtracted from personal property, the assessment will shrink. But since millage can be raised to cover it, the school districts which have been slow about bringing personal and real property into line will benefit. They will have not loss. Hence the 20 million deficit only refers to equalized districts.

The legislature is currently meeting. There seems little interest in restoring the loss. The excuse is that there will be growth in other local taxes. This underlines the similarities to the Cargo Cult. The tax base will come. Have faith!

In all of this teacher salaries have usually been the political football. Increases have been required and even funded but the situation shifts as other demands are made on these funds. The seventy percent rule is under close scrutiny at present. A cap on the percentage of budget going to salaries is the proposed solution. It is really a necessary move. But the losers one more time, will be the teachers, the big element in education. The only solution is

added state taxes which at present are a political no-no. It would probably mean an increased sales tax.

The reason for this is another Constitutional amendment. Back in the depression, the state voters adopted an amendment which requires a three-quarters vote of each house in the general assembly to raise an existing tax. At the time there was no state sales tax. Hence is not subject to this rule and can be raised by a simple majority vote. Therefore when new money is needed, the sales tax is the easiest to raise. This has been done twice in the last ten years. Although Arkansas still has one of the lowest tax burdens in the country, it would seem that it has gone to the same well too often. Objections are being raised to more sales tax. A rise was recently blocked as a solution to the state Medicaid problem.

Income taxes remain low. The severance tax is the lowest in the country. But any increase is usually blocked by a small group of legislators beholden to special interests. So the schools remain short of funds and most school people must fight with each other over fund distribution rather than concentrate on the real enemy.

Therefore Arkansas itself in the position of having to improve its school finance. However accompanying all of its recent attempts have been cuts directed from other courses. The result is that the high hopes have not reached fruition as two steps forward have ended in one step back.

The General Assembly is meeting as this paper is being prepared. Several changes in the law concerning school finance have been mentioned. These would seem to be the only changes forthcoming. This has not been an "education" session. Appropriations will not increase by much. No new taxes to expand it are being called for.

The new governor is thinking of his reelection bid. He does not want to be branded as a tax raiser. To solve the Medicaid and other fiscal problems he has suggested fees for state services such as state parks rather than taxation. What taxes were earned by a previous special session are largely small expansions of the state tax into areas previously untaxed.

As a result, higher education will receive no increases. The only increase to K-12 education will cover growth. The immediate future holds no great surprises for education. It can be hoped that in the long run the situation will improve and two steps forward will be attempted again.